Washington: Seattle joins the sugar tax club

David M. Kall | Thursday, June 22, 2017

Seattle became a member of the sugar tax club after the Seattle City Council passed CB 118965 (ordinance). It is largely an effort aimed at solving problems like lack of access to healthy and affordable food, food insecurity, disparities in social, developmental, and educational readiness and learning for children, college attendance, and lack of services for the birth-to-five population.

The rate is $0.0175 per fluid ounce, but for manufacturers with worldwide gross income between $2 million and $5 million, that rate can be reduced to $0.01 per fluid ounce upon certification. There are a number of exemptions to what constitutes a “sugar-sweetened beverage,” including those “in which natural milk is the primary ingredient,” baby formula, alcoholic beverages, beverages consisting of 100 percent natural fruit or vegetable juice with no added sweetener, and cough syrup.

Prior to the city council’s vote, a Seattle Times piece contemplated whether the proposed soda tax would be imposed on certain kinds of beverages, noting that there were “doubts about how exactly the tax might affect made-to-order coffee drinks.” At that time, things like “bottled coffees, such as those made by Starbucks to be sold in stores,” along with more clearly taxable beverages like soda pop, sports and energy drinks, including Red Bull and Gatorade, some fruit drinks, like Sunny D, and sweetened teas such as those sold by Arizona, were on the list of taxable drinks.

The coffee beverage tax conflicted with Seattle Mayor Ed Murphy’s statement made when he originally proposed the tax, that his plan would exempt “[i]n-store prepared coffee beverages.” By the time the plan got to city council, this exemption had disappeared, but there was one on milk beverages, begging the question: "what about sugary lattes, which are made with syrups but are mostly milk?" Of course, Seattle is Starbucks' home base, having begun there with just one store in 1971.

Things did not become clearer after the ordinance passed. In a critical editorial, the Seattle Times editorial board observed that "[d]uring and after deliberations, policy specifics were about as transparent as a Caramel Macchiato." Further, the editorial opined that

> The list of programs that would receive [the tax] revenue is ambiguous, as is the range of beverages affected by the 1.75 cents per ounce tax. In a flurry of amendments, the council created loopholes for certain local soda producers and milky beverages such as lattes and chocolate milk, though confusion lingers about the effect on Starbucks and other coffee shops.

Record on passing sugar taxes is a spotty one

Several jurisdictions, including Boulder, Colorado, and San Francisco, California, were successful in passing taxes on sugar-sweetened beverages late last year by way of ballot initiatives, and Philadelphia passed a law that took effect on Jan. 1, 2017. Effective July 1, 2017 is a Cook County, Illinois, sweetened beverage tax that the Board of Commissioners passed last November. The tax is $.01 per ounce on the retail sale of all sweetened beverages in Cook County.

Meanwhile, efforts in Massachusetts and Santa Fe, New Mexico, have failed so far this year,

In Massachusetts, Amendment # 866 to the budget bill, H.3600, would have imposed a $.01 cent per ounce tax on beverages with between 5 and 12 grams of sugar per 12 ounces of fluid, and $.01 cents on those drinks with more than 12 grams of sugar per 12 ounces of fluid. Lawmakers withdrew the amendment, but the proposed pop tax is now back on the table by way of a new bill, S. 1562, and its House companion bill, H 3329. The Joint Committee on Revenue held a hearing on the matter this week.

In Santa Fe, an *Albuquerque Journal* article revealed that not only did voters reject the $.02 cent tax on the May 2, 2017, vote, they showed up in record numbers to do so - 37.6 percent of registered voters took the trouble to cast a ballot, and 58 percent voted no.

In reporting on the new Massachusetts effort, BostonMagazine posed the key question: Would a soda tax be good for the state? The issues regarding disproportionate effects on the poor, health care costs, and the like are not new. The Tax Foundation continues to put forth its longstanding opinion that "soda taxes are regressive, do not necessarily improve health outcomes, and encourage tax avoidance," and that "lawmakers should instead rely on a more steady, stable funding source."

Additionally, as we explained in March, the jury is still out on whether sin taxes, defined as taxes that discourage the intake or usage of harmful goods like cigarettes and alcohol, have any impact at all on self-destructive individual behaviors. The research paper we addressed, titled Regressive Sin Taxes, authored by economists at the Wharton School and Dartmouth College, concluded that the evidence is not out there yet to reach a definitive answer. Even so, with respect to beverage taxes, one of the authors supposed it would need to be higher than the additional $.01 - $.02 cents per ounce levies that are out there now.

Despite the controversy, it seems likely that most consumers will continue to line up for their next sugary drink, even if the new tax does apply to such treats.

David M. Kall